

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Swartz Creek	County Genesee
Audit Date 6/30/05	Opinion Date 9/1/05	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

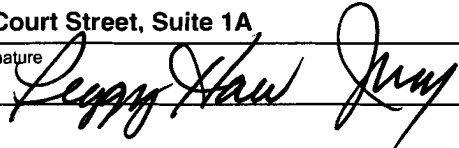
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Plante & Moran, PLLC			
Street Address 111 East Court Street, Suite 1A		City Flint	State MI
Accountant Signature 		ZIP 48502	Date 12/16/05

Annual Financial Statements

**City of Swartz Creek
Genesee County, Michigan**

For the Fiscal Year Ended June 30, 2005

with Independent Auditors' Report

**City of Swartz Creek, Michigan
Annual Financial Report
For the Fiscal Year Ended June 30, 2005**

Table of Contents

	<u>Page</u>
Introductory Section:	
List of Elected and Appointed Officials	1
Financial Section:	
Report of Independent Auditors	2-3
Management's Discussion and Analysis	4-10
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12-13
Fund Financial Statements:	
Balance Sheet Governmental Funds	14-15
Reconciliation of the Fund Balance as Reported in the Governmental Balance Sheet to the Statement of Net Assets	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	17-18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Net Assets – Proprietary Funds	20
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	21
Statement of Cash Flows – Proprietary Funds	22
Statement of Assets and Liabilities – Fiduciary Funds	23
Notes to the Basic Financial Statements	24-40

**City of Swartz Creek, Michigan
Annual Financial Report
For the Fiscal Year Ended June 30, 2005**

Table of Contents – (continued)

	<u>Page</u>
Required Supplementary Information Section:	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	41
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Major Street Fund	42
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Local Street Fund	43
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Garbage Fund	44
Other Supplemental Information:	
Fund Descriptions	45
Combining Statements:	
Combining Balance Sheet – Non-major Governmental Funds	46-47
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major Governmental Funds	48-49
Combining Balance Sheet – Agency Funds	50-51

Introductory Section

**City of Swartz Creek, Michigan
List of Elected and Appointed Officials**

City Council

Richard Abrams
Jason Christie
Donald Adams
C. David Hurt
David Plumb
Curtis Porath
Michael Shumaker

Mayor
Mayor Pro-Tem
Councilperson
Councilperson
Councilperson
Councilperson
Councilperson

Other Officers and Officials

Paul Bueche
Mary Jo Clark
Tom Svrcek
Rick Clolinger
Tom O'Brien
Deanna Korth
Juanita Aguilar

City Manager
City Clerk/Finance Director
Director of Public Services
Police Chief
Zoning Administrator
Deputy Treasurer/Deputy City Clerk
Treasurer

Financial Section

Independent Auditors' Report

Honorable Mayor and Members
of the City Council
City of Swartz Creek
Swartz Creek, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Swartz Creek, Michigan as of June 30, 2005, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Swartz Creek, Michigan at June 30, 2005, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 4 through 10 and the information in the required supplemental information section on pages 41 through 44 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The introductory section and the other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Plante & Moran PLLC

September 1, 2005

Management's Discussion and Analysis

City of Swartz Creek Management's Discussion and Analysis

Our discussion and analysis of the City of Swartz Creek's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$8,000 this year. The City expected this and reduced budgeted appropriations and watched actual revenues and expenses closely, which resulted in a fund balance increase of only \$4,800.
- Total net assets related to the City's governmental activities increased by approximately \$115 thousand. However, the unrestricted portion of net assets decreased by approximately \$55 thousand.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Swartz Creek as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City of Swartz Creek's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

**Table 1 - Major Features of the City of Swartz Creek's
Government-wide and Fund Financial Statements**

<u>Type of Statements</u>	<u>Government-wide</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire City government (except fiduciary funds) and the City's component unit	The activities of the City that are not proprietary or fiduciary, such as police, garbage and streets	Activities the City operates similar to private businesses: the water and sewer system	Instances in which the City is the trustee or agent for someone else's resources. The City has several agency funds.
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term, the City's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	No revenues or expenses are recognized in the City's agency funds.

The City of Swartz Creek as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

Summary Condensed Statement of Net Assets					
	Governmental Activities		Business-type Activities		Total
	2005	2004	2005	2004	2004
Current assets	\$ 3,422,892.0	\$ 3,311,607.0	\$ 3,062,214.0	\$ 2,800,371.0	\$ 6,111,978.0
Noncurrent assets:					
Restricted assets	-	-	-	-	-
Capital assets	3,939,155.0	3,866,902.0	4,704,534.0	4,825,674.0	8,692,576.0
Total assets	7,362,047.0	7,178,509.0	7,766,748.0	7,626,045.0	14,804,554.0
Current liabilities	176,345.0	86,832.0	166,865.0	189,345.0	276,177.0
Long-term liabilities	974,919.0	996,166.0	83,580.0	112,554.0	1,108,720.0
Total liabilities	1,151,264.0	1,082,998.0	250,445.0	301,899.0	1,384,897.0
Net assets:					
Invested in capital assets -					
Net of related debt	3,044,155.0	2,921,902.0	4,620,954.0	4,713,120.0	7,635,022.0
Restricted	1,782,414.0	1,734,041.0	-	-	1,734,041.0
Unrestricted	1,384,217.0	1,439,568.0	2,895,349.0	2,611,026.0	4,050,594.0
Total net assets	\$ 6,210,786.0	\$ 6,095,511.0	\$ 7,516,303.0	\$ 7,324,146.0	\$ 13,419,657.0

The City of Swartz Creek's combined net assets increased 2.3 percent from a year ago - increasing from \$13.4 million to \$13.7 million. In contrast, last year's net assets increased by only 1.5 percent. As we look at the governmental activities separately from the business-type activities, we can see that governmental net assets increased by 1.92% while business-type net assets increased by 2.65%.

Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) decreased by \$55,000 for the governmental activities. This represents a decrease of approximately 3.8 percent. The current level of unrestricted net assets for our governmental activities stands at \$1.38 million, or about 51.3 percent of expenditures.

The following table shows the changes in net assets as of June 30, 2005 compared to the prior year:

Summary Condensed Income Statement:

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 308,814.0	\$ 280,138.0	\$ 1,799,446.0	\$ 1,646,738.0	\$ 2,108,260.0	\$ 1,926,876.0
Operating grants and contributions	363,009.0	367,513.0	-	-	363,009.0	367,513.0
Capital grants and contributions	-	754,978.0	68,040.0	28,555.0	68,040.0	783,533.0
General revenue:						
Property taxes	1,323,390.0	1,235,343.0	2,520.0	-	1,325,910.0	1,235,343.0
State-shared revenue	470,226.0	478,446.0	-	-	470,226.0	478,446.0
Interest	77,980.0	45,658.0	53,751.0	26,083.0	131,731.0	71,741.0
Cable fees and other	209,962.0	251,841.0	-	-	209,962.0	251,841.0
Total revenue	2,753,381.0	3,413,917.0	1,923,757.0	1,701,376.0	4,677,138.0	5,115,293.0
Program Expenses						
Legislative	27,113.0	45,574.0	-	-	27,113.0	45,574.0
General government	624,005.0	782,723.0	-	-	624,005.0	782,723.0
Public safety	1,170,848.0	988,273.0	-	-	1,170,848.0	988,273.0
Public works	709,396.0	1,290,737.0	-	-	709,396.0	1,290,737.0
Recreation and cultural	117,035.0	156,066.0	-	-	117,035.0	156,066.0
Interest on long-term debt	47,693.0	55,999.0	5,048.0	-	52,741.0	55,999.0
Water	-	-	943,884.0	869,705.0	943,884.0	869,705.0
Sewer	-	-	724,686.0	721,699.0	724,686.0	721,699.0
Total program expenses	2,696,090.0	3,319,372.0	1,673,618.0	1,591,404.0	4,369,708.0	4,910,776.0
General Expenses						
Transfers In (Out)	57,981.0	13,799.0	(57,981.0)	(13,799.0)	-	-
Change in Net Assets						
Net Assets - Beginning of year (Restated)	115,272.0	108,344.0	192,158.0	96,173.0	307,430.0	204,517.0
Net Assets - End of year	6,095,511.0	5,987,167.0	7,324,146.0	7,227,973.0	13,419,657.0	13,215,140.0
	\$6,210,783.0	\$6,095,511.0	\$ 7,516,304.0	\$ 7,324,146.0	\$ 13,727,087.0	\$13,419,657.0

Governmental Activities

The City of Swartz Creek's total governmental revenues decreased by approximately \$660,000, because of decreases in state-shared revenue and no federal or state funded street grants obtained during the fiscal year. This decrease, which represents 19.3 percent of revenue, was partially offset by the continuing increase in property taxes due to new construction and uncapping.

Expenses decreased by about \$623 thousand during the year. Increases were led by increases in health care costs and property insurance rates and contractual wages. To offset this, the City closely monitored its spending in all other areas, including seasonal hiring and held off starting any new road projects.

Business-type Activities

The City of Swartz Creek's business-type activities consist of the Water and Sewer Fund. We provide water to residents from the Genesee County Water System. We provide sewage treatment through a sewage treatment plant operated by Genesee County Water and Waste. In 2005, the City raised the sewer rates for the first time in 10 years after absorbing any rate increases from Genesee County. Water rates were raised by the City in November, 2003 for the second time in 10 years. These combined two factors resulted in an operating income, compared to operating losses in each of the last five years.

The City of Swartz Creek Funds

The fund financial statements provide detail information about the most significant funds, not the City of Swartz Creek as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2005 include the General Fund, the Major and Local Street Funds, the Garbage Collection Fund and others.

The General Fund pays for most of the City of Swartz Creek's governmental services. The most significant are police and city offices, which incurred expenses of approximately \$ 1.68 million in 2005.

General Fund Budgetary Highlights

Over the course of the year, the City of Swartz Creek amended the budget to take into account events during the year. The most significant change was to decrease the estimated licenses and permits revenue by \$ 9,218. This was a result of the City not instituting the budgeted increase in fees. Since it is the City's policy to budget revenues a little shy of expected revenues, the actual revenues exceeded budgeted revenues by \$ 146,000. The City's departments overall stayed below budget, resulting in total expenditures \$16,602 below budget. This allowed the General Fund's fund balance to increase from \$ 1.149 million a year ago to \$ 1.154 million at June 30, 2005.

Capital Asset and Debt Administration

At the end of 2005, the City of Swartz Creek had \$ 7.665 million invested in a broad range of capital assets, including buildings, police and fire equipment, roads and water and sewer lines. At this time the only long term debt service the City has is Building Authority Bonds for the construction of City Hall (Finished in 2001) and the City's portion of Water Supply System Bonds (Debt to expire in 2008). In Fiscal 2006, the City anticipates a commitment for the City's portion of Sanitary Sewer Western Trunk Expansion.

Economic Factors and Next Year's Budgets and Rates

The City of Swartz Creek's budget for next year calls for a watchful eye on the State's budget cuts. If any further cuts are made in State Revenue Sharing or in ACT 51 monies, the City may have to consider cutting services. These revenues have become more important because of the impact of Proposal A, therefore, the City needs to continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City of Swartz Creek will grow less than by inflation, before considering new property additions.

If Genesee County raises the water or sewer rates to the City, the City will be forced to pass the increases along to its customers. The maintenance on these aged lines is costly and the City no longer has more than enough unrestricted net assets to cover the costs of replacing the lines.

Contacting the City of Swartz Creek Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of Swartz Creek's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office at 8083 Civic Drive, Swartz Creek, MI 48473.

Basic Financial Statements

Government-wide Financial Statements

**City of Swartz Creek
Statement of Net Assets
June 30, 2005**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Senior Citizens Authority
Assets				
Cash and equivalents	\$ 2,359,723	\$ 1,986,939	\$ 4,346,662	\$ 47,968
Investments	762,913	610,790	1,373,703	178,139
Accounts receivable	35,336	453,760	489,096	150
Due from other governments	236,611	-	236,611	5,172
Inventory	6,066	10,725	16,791	-
Prepaid items	22,246	-	22,246	18,581
Capital assets - not depreciated	1,364,467	-	1,364,467	-
Capital assets (net of accumulated depreciation)	2,574,688	4,704,534	7,279,222	16,962
Total assets	7,362,050	7,766,748	15,128,798	266,972
Liabilities				
Accounts payable	92,593	164,175	256,768	604
Accrued liabilities	82,086	2,690	84,776	2,476
Deferred revenue	-	-	-	18,227
Due to other governments	1,666	-	1,666	-
Noncurrent liabilities:				
Due within one year	33,000	28,417	61,417	-
Due in more than one year	941,919	55,163	997,082	-
Total liabilities	1,151,264	250,445	1,401,709	21,307
Net assets				
Invested in capital assets, net of related debt	3,044,155	4,620,954	7,665,109	16,962
Restricted for:				
Streets	1,137,020	-	1,137,020	-
Garbage collection	529,452	-	529,452	-
Public safety	100,360	-	100,360	-
Debt Service	12,510	-	12,510	-
Capital improvements	3,072	-	3,072	178,139
Unrestricted	1,384,217	2,895,349	4,279,566	50,564
Total net assets	\$ 6,210,786	\$ 7,516,303	\$13,727,089	\$ 245,665

See notes to financial statements.

**City of Swartz Creek
Statement of Activities
For the Year Ended June 30, 2005**

Functions\Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
Legislative	\$ 27,113	\$ -	\$ -	\$ -
General government	624,005	104,885	-	-
Public safety	1,170,848	165,077	-	-
Public works	709,396	13,818	363,009	-
Recreation and cultural	117,035	8,395	-	-
Interest on long-term debt	47,689	-	-	-
Total governmental activities	2,696,086	292,175	363,009	-
Business-type activities:				
Water	948,932	1,062,483	-	14,040
Sewer	724,686	736,963	-	54,000
Total business-type activities	1,673,618	1,799,446	-	68,040
Total primary government	\$ 4,369,704	\$ 2,091,621	\$ 363,009	\$ 68,040
Component units:				
Senior Citizens Authority	\$ 189,069	\$ 61,487	\$ 73,561	\$ -
General revenues:				
Property taxes				
Unrestricted grants and contributions				
Unrestricted investment earnings				
Unrestricted earnings				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Senior Citizens Authority
\$ (27,113)	\$ -	\$ (27,113)	\$ -
(519,120)	-	(519,120)	-
(1,005,771)	-	(1,005,771)	-
(332,569)	-	(332,569)	-
(108,640)	-	(108,640)	-
(47,689)	-	(47,689)	-
(2,040,902)	-	(2,040,902)	-
-	127,591	127,591	-
-	66,277	66,277	-
-	193,868	193,868	-
(2,040,902)	193,868	(1,847,034)	-
-	-	-	(54,021)
1,323,389	2,520	1,325,909	97,045
470,226	-	470,226	4,582
77,980	53,751	131,731	3,550
226,603	-	226,603	-
57,981	(57,981)	-	-
2,156,179	(1,710)	2,154,469	105,177
115,277	192,158	307,435	51,156
6,095,509	7,324,145	13,419,654	194,509
\$ 6,210,786	\$ 7,516,303	\$ 13,727,089	\$ 245,665

Fund Financial Statements

**City of Swartz Creek
Balance Sheet
Governmental Funds
For the Year Ended June 30, 2005**

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>
Assets			
Cash and cash equivalents	\$ 788,032	\$ 763,711	\$ 54,723
Investments	288,715	169,986	79,359
Accounts receivable	11,712	2,442	1,107
Accounts receivable-Taxes	13,738	-	-
Due from other governmental units	151,148	42,583	29,142
Prepaid items	22,246	-	-
Total assets	<u>\$ 1,275,591</u>	<u>\$ 978,722</u>	<u>\$ 164,331</u>
Liabilities			
Accounts payable	\$ 41,664	\$ 3,947	\$ 1,092
Accrued and other liabilities	78,050	597	397
Due to other governmental units	1,666	-	-
Total liabilities	<u>121,380</u>	<u>4,544</u>	<u>1,489</u>
Fund Balances			
Reserved for prepaid items	22,246	-	-
Unreserved:			
Designated for subsequent year's expenditures	64,540	388,337	3,337
Undesignated , reported in	1,067,425		
Special revenue funds	-	585,841	159,505
Debt service funds	-	-	-
Capital project funds	-	-	-
Total fund balances	<u>1,154,211</u>	<u>974,178</u>	<u>162,842</u>
Total liabilities and fund balances	<u>\$ 1,275,591</u>	<u>\$ 978,722</u>	<u>\$ 164,331</u>

See notes to financial statements.

<u>Garbage Collection</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
\$ 365,432	\$ 149,800	\$ 2,121,698
179,832	-	717,892
2,727	15,844	33,832
-	-	13,738
-	-	222,873
-	-	22,246
<hr/>	<hr/>	<hr/>
\$ 547,991	\$ 165,644	\$ 3,132,279
<hr/>	<hr/>	<hr/>
\$ 17,405	\$ 27,062	\$ 91,170
1,134	-	80,178
-	-	1,666
<hr/>	<hr/>	<hr/>
18,539	27,062	173,014
<hr/>	<hr/>	<hr/>
-	-	22,246
123,605	-	579,819
-	-	1,067,425
405,847	34,788	1,185,981
-	12,510	12,510
-	91,284	91,284
<hr/>	<hr/>	<hr/>
529,452	138,582	2,959,265
<hr/>	<hr/>	<hr/>
\$ 547,991	\$ 165,644	\$ 3,132,279
<hr/>	<hr/>	<hr/>

(continued)

City of Swartz Creek
Reconciliation of the Fund Balance as Reported in the
Governmental Balance Sheet to the Statement of Net Assets
For the Year Ended June 30, 2005

Total Governmental Funds Fund balance as reported in the Balance Sheet Governmental Funds	\$ 2,959,265
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,939,155
Long term liabilities, including long term notes payable, are not due and payable in the current period, and therefore, are not reported in the funds.	(974,919)
Internal service funds are used by management to charge the costs of fleet and equipment management to individual funds. The assets and liabilities of the internal service fund, exclusive of capital assets, are included in governmental activities in the statement of net assets.	<u>287,285</u>
Net Assets - Governmental Activities	<u><u>\$ 6,210,786</u></u>

See notes to financial statements.

City of Swartz Creek
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>
Revenues			
Taxes	\$ 979,175	\$ -	\$ -
Licenses and permits	81,927	-	-
Intergovernmental:			
Federal	13,958	-	-
State	473,317	269,080	77,290
Local	-	-	-
Charges for services	171,730	-	-
Fines and forfeits	55,266	-	-
Interest	35,884	15,890	2,958
Other	128,195	2,600	16,639
	<hr/>	<hr/>	<hr/>
Total revenues	1,939,452	287,570	96,887
	<hr/>	<hr/>	<hr/>
Expenditures			
Current:			
Legislative	27,113	-	-
General government	534,487	-	-
Public safety	1,067,636	-	-
Public works	83,449	219,291	111,675
Recreation and cultural	128,550	-	-
Employee benefits	18,968	-	-
Capital outlay	-	-	-
Debt service:			
Principal payments	-	-	-
Interest and paying agent fees	-	-	-
	<hr/>	<hr/>	<hr/>
Total expenditures	1,860,203	219,291	111,675
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over expenditures	79,249	68,279	(14,788)
	<hr/>	<hr/>	<hr/>
Other financing sources (uses)			
Operating transfers in	-	-	25,000
Operating transfers out	(74,359)	(25,000)	-
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(74,359)	(25,000)	25,000
	<hr/>	<hr/>	<hr/>
Net change in fund balances	4,890	43,279	10,212
Fund balance - beginning of year	1,149,321	930,899	152,630
	<hr/>	<hr/>	<hr/>
Fund balance - end of year	\$ 1,154,211	\$ 974,178	\$ 162,842
	<hr/>	<hr/>	<hr/>

See notes to financial statements.

<u>Garbage Collection</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
\$ 344,215	\$ -	\$ 1,323,390
-	-	81,927
-	-	13,958
-	-	819,687
-	-	-
-	-	171,730
16	-	55,282
12,527	4,027	71,286
-	44,552	191,986
356,758	48,579	2,729,246
-	-	27,113
-	-	534,487
-	75,761	1,143,397
275,443	-	689,858
-	-	128,550
-	-	18,968
-	118,442	118,442
-	25,000	25,000
-	47,967	47,967
275,443	267,170	2,733,782
81,315	(218,591)	(4,536)
-	132,359	157,359
-	(19)	(99,378)
-	132,340	57,981
81,315	(86,251)	53,445
448,137	224,833	2,905,820
\$ 529,452	\$ 138,582	\$ 2,959,265

**City of Swartz Creek
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2005**

Amounts reported for governmental activities in the statement of activities (page 11)
are different because:

Net change in fund balances - total governmental funds (page 16)	\$ 53,445
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period	9,412
Principal payments on long term debt	25,000
Expenses recorded on the statement of change in net assets for the accrual of compensated absences do not consume current financial resources of the funds and therefore are not reported as expenditures in the governmental funds.	(3,754)
The activities of the motor pool internal service fund are considered part of governmental activities on the statement of changes in net assets but are not reported in the governmental funds. The motor pool internal service fund had a new gain of \$31,174 for the year ended June 30, 2005	31,174
Change in net assets	<u>\$ 115,277</u>

See notes to financial statements.

**City of Swartz Creek
Statement of Net Assets
Proprietary Funds
June 30, 2005**

	Enterprise Funds		Total Enterprise Funds	Governmental Activities Internal Service Fund
	Water	Sewer		
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,238,024	\$ 748,915	\$ 1,986,939	\$ 238,026
Investments	352,229	258,561	610,790	45,021
Accounts receivable	258,251	195,509	453,760	1,501
Inventories	10,725	-	10,725	6,066
Total current assets	1,859,229	1,202,985	3,062,214	290,614
Property and equipment - net	2,792,366	1,912,168	4,704,534	339,899
Total assets	<u>\$ 4,651,595</u>	<u>\$ 3,115,153</u>	<u>\$ 7,766,748</u>	<u>\$ 630,513</u>
Liabilities				
Current liabilities:				
Accounts payable	\$ 77,294	\$ 86,881	\$ 164,175	\$ 3,088
Accrued and other liabilities	1,365	1,325	2,690	241
Current portion of long-term debt	28,417	-	28,417	-
Total current liabilities	107,076	88,206	195,282	3,329
Long-term debt-net of current portion	55,163	-	55,163	-
Net Assets				
Invested in capital assets, net of related debt	2,708,786	1,912,168	4,620,954	339,899
Unrestricted	1,780,570	1,114,779	2,895,349	287,285
Total net assets	4,489,356	3,026,947	7,516,303	627,184
Total liabilities and net assets	<u>\$ 4,651,595</u>	<u>\$ 3,115,153</u>	<u>\$ 7,766,748</u>	<u>\$ 630,513</u>

**City of Swartz Creek
Statement of Revenues, Expenses,
and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2005**

	<u>Enterprise Funds</u>		<u>Total</u>	<u>Governmental</u>
	<u>Water</u>	<u>Sewer</u>	<u>Enterprise</u>	<u>Activities</u>
			<u>Funds</u>	<u>Internal Service</u>
				<u>Funds</u>
Operating revenues				
Charges for services	\$ 1,044,567	\$ 725,472	\$ 1,770,039	\$ -
Penalties	17,916	11,491	29,407	-
Equipment rental	-	-	-	205,575
Total operating revenues	1,062,483	736,963	1,799,446	205,575
Operating expenses				
Water operating	835,176	-	835,176	-
Meter reading and billings	36,339	23,039	59,378	-
Sewer operating	-	631,750	631,750	-
Sewer lift station operation	-	21,126	21,126	-
Motor pool operations	-	-	-	143,093
Depreciation	72,369	48,771	121,140	62,083
Total operating expenses	943,884	724,686	1,668,570	205,176
Net operating income	118,599	12,277	130,876	399
Nonoperating revenues (expenses)				
Interest on long-term debt	(5,048)	-	(5,048)	-
Property taxes-debt levy	2,520	-	2,520	-
Interest income and other	34,051	19,700	53,751	30,775
Total nonoperating revenues	31,523	19,700	51,223	30,775
Net income before capital contributions and transfers	150,122	31,977	182,099	31,174
Capital contributions	14,040	54,000	68,040	-
Transfers in	-	19	19	-
Transfers out	(29,000)	(29,000)	(58,000)	-
Change in net assets	135,162	56,996	192,158	31,174
Net asset - beginning of year	4,354,194	2,969,951	7,324,145	596,010
Net assets- end of year	\$ 4,489,356	\$ 3,026,947	\$ 7,516,303	\$ 627,184

See notes to financial statements.

**City of Swartz Creek
Statement of Cash Flows
Proprietary Fund
For Year Ended June 30, 2005**

	Enterprise Funds			Governmental Activities Internal Service Fund
	Water	Sewer	Total	
Cash flows from operating activities				
Cash receipts from customers	\$ 1,025,350	\$ 854,630	\$ 1,879,980	\$ 208,786
Cash payments to suppliers	(771,484)	(731,438)	(1,502,922)	(111,157)
Cash payments to employees	(119,568)	(78,709)	(198,277)	(32,189)
Net cash provided by operating activities	134,298	44,483	178,781	65,440
Cash flows from noncapital financing activities				
Transfers to other funds	(29,000)	(29,000)	(58,000)	-
Cash flows from capital and related financing activities				
Interest paid on debt	(5,048)	-	(5,048)	-
Acquisition of capital assets	-	-	-	(124,924)
Transfer from debt service fund	75,613	-	75,613	-
Principal payments on debt	(28,974)	-	(28,974)	-
Tap in revenue	14,040	54,000	68,040	-
Net cash provided by (used in) capital and related related financing activities	55,631	54,000	109,631	(124,924)
Cash flows from investing activities				
Sale of investments	-	54,615	54,615	20,555
Purchase of investments	(58,286)	-	(58,286)	-
Interest earned	34,051	19,700	53,751	30,775
Net cash provided by (used in) investing activities	(24,235)	74,315	(4,535)	51,330
Net increase (decrease) in cash and cash equivalents	136,694	143,798	225,877	(8,154)
Cash and cash equivalents - beginning of year	1,101,330	605,098	1,706,428	246,180
Cash and cash equivalents - end of year	\$ 1,238,024	\$ 748,896	\$ 1,932,305	\$ 238,026
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 118,599	\$ 12,277	\$ 130,876	\$ 399
Adjustments to reconcile operating income to net cash provided by (used in) operating activities -				
Depreciation	72,369	48,771	121,140	62,083
Changes in operating assets and liabilities:				
Accounts receivable	(37,133)	(13,622)	(50,755)	3,211
Accounts payable	(20,402)	(4,235)	(24,637)	(494)
Deposits	(500)	-	(500)	-
Accrued liabilities	1,365	1,292	2,657	241
Net cash provided by operating activities	\$ 134,298	\$ 44,483	\$ 178,781	\$ 65,440

See notes to financial statements.

**City of Swartz Creek
Statement of Assets and Liabilities
Fiduciary Funds - Agency Funds
June 30, 2005**

Assets

Cash and cash equivalents	\$ 62,092
Delinquent taxes	<u>277,741</u>
Total assets	<u><u>\$ 339,833</u></u>

Liabilities

Due to other governmental units	\$ 303,329
Deposits payable	<u>36,504</u>
Total liabilities	<u><u>\$ 339,833</u></u>

Notes to Basic Financial Statements

City of Swartz Creek, Michigan
Notes to Basic Financial Statements
June 30, 2005

I. Summary of significant accounting policies

A. Reporting entity

The City of Swartz Creek (City) was incorporated in 1959, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire inspections), highways and streets, sanitation, community development, culture-recreation, public improvements, planning and zoning, water supply and sewage disposal systems, and general administrative services.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Component units – In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

Blended component units – for financial reporting purposes, City of Swartz Creek Building Authority has been reported as if it were a part of this City's operations because:

- City pledged its full faith and credit as a guarantee for the Authority's outstanding debt
- City is obligated to fund deficits of the Authority

Discretely presented component unit – The component unit column in the combined financial statements presents the financial data of the Swartz Creek Area Senior Citizens, Inc. The Swartz Creek Area Senior Citizens, Inc. is a legally separate nonprofit organization with the majority of the Board of Directors elected by the general membership. However the majority of the revenue of the organization is collected from a tax levy by the City of Swartz Creek and the building and utilities are furnished by the City. As a result, the Swartz Creek Area Senior Citizens, Inc. is considered fiscally dependent on the City.

The financial statements of the Swartz Creek Area Senior Citizens, Inc. are audited separately and may be obtained at the following address: 8095 Civic Drive, Swartz Creek, Michigan 48473.

The City has established the Swartz Creek Downtown Development Authority (Authority), in accordance with State law to promote and rehabilitate the downtown area. The Authority was formed to construct certain improvements in the downtown area. State law provides for a specific tax levy for the operations of the Authority. The City appoints the Board and has to approve the annual budget and the issuance of any debt. Any surplus funds remaining at the termination of the Authority vest to the City. The Authority had no assets or liabilities at June 30, 2005 and did not have any revenues or expenses for the year then ended.

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2005

I. Summary of significant accounting policies – (continued)

A. Reporting entity – (continued)

Joint Ventures – The following organization is not part of the City of Swartz Creek and is excluded from the accompanying financial statements for the reasons stated.

Swartz Creek Area Fire Board:

- The above entity serves a community outside of the City of Swartz Creek.
- Swartz Creek Area Fire Authority is a joint venture with the Township of Clayton, financed primarily through fire run revenues from the two municipalities.

The Swartz Creek Area Fire Board has a December 31 year end. Audited financial statements of the Fire Board for the year ended December 31, 2004 is available for public inspection at the Fire Board headquarters.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2005

I. Summary of significant accounting policies – (continued)

C. Measurement focus, basis of accounting, and financial statement presentation – (continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The Major and Local Street Funds account for the City's share of proceeds from gas and weight taxes levied by the State and distributed to local governmental units. State law requires that these taxes be used for street maintenance and construction.

The Garbage Collection Fund accounts for a special property tax millage allowed to provide garbage and compost collection services.

The City reports the following major proprietary funds:

Water accounts for the operations of the water distribution system.

Sewer accounts for the operations of the sewage pumping and collection system.

Additionally, the City reports the following fund types:

Internal service – Services provided to other departments of the government on a cost reimbursement basis. The City has a motor pool internal service fund.

Agency funds accounts for assets held by the City as an agent for individuals, private organization, and other government.

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2005

I. Summary of significant accounting policies – (continued)

C. Measurement focus, basis of accounting, and financial statement presentation – (continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and interest income.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise funds and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Cash and cash equivalents and investments

The City has classified all checking/sweep accounts as cash and cash equivalents.

The City considers all highly liquid investments (including restricted assets) with a maturity of three months or more when purchased to be investments. Investments are reported on the balance sheet at fair value.

2. Receivables and payables

In general, outstanding balances between funds are reported as "due to/from other funds", activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2005

I. Summary of significant accounting policies – (continued)

D. Assets, liabilities, and net assets or equity – (continued)

3. Inventories and prepaid items

Inventories are valued at the lower of cost or market using the first-in/first-out (FIFO) method. Inventory consists of expendable supplies for consumption.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

In accordance with accounting principles generally accepted in the United States of America, recorded infrastructure assets include only those acquired during the fiscal year ended June 30, 2005. Prior to the implementation of GASB No. 34, records on these assets were not maintained. The City is not required to retroactively determine costs and accumulated depreciation for infrastructure assets acquired prior to July 1, 2003 and record those assets on the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Land improvements	20
Water and sewer systems	50-75
Machinery and equipment	3-20
Roads	25

5. Compensated absences

In accordance with contracts negotiated with the various employee groups of the City of Swartz Creek, individual employees have a vested right upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All vacation pay is accrued annually in the government-wide, proprietary, and fiduciary fund financial statements.

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2005

I. Summary of significant accounting policies – (continued)

D. Assets, liabilities, and net assets or equity – (continued)

6. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Revenues, expenditures, and expenses

Property tax

The City's property tax is levied each July 1 on the taxable value determined as of December 31 of the preceding year for all taxable real and personal property located in the City. On July 1, the property tax attachment is an enforceable lien on the property.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance -total governmental funds* and *net assets -governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Note payable	\$895,000
Compensated absences	<u>79,919</u>
Net adjustment to reduce <i>fund balance -total governmental funds</i> to arrive at <i>net assets -governmental activities</i>	<u><u>\$974,919</u></u>

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2005

II. Reconciliation of government-wide and fund financial statements – (continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances -total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	\$ 121,542
Depreciation expense	<u>(112,130)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u><u>\$ 9,412</u></u>

III. Stewardship, compliance, and accountability

Budgetary information

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first meeting in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them, for the General and Special Revenue Funds. (These funds are required to have budgets per Michigan law.)
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to July 1, the budget was legally enacted on a total fund basis for the 2005 fiscal year, through passage of a resolution in accordance with Public Act 621 of 1978 of the State of Michigan. All budgets are enacted in accordance with generally accepted accounting principles (GAAP).
4. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
5. Budget appropriations lapse at year end, except for certain Major Street Fund construction activity budgeted on a project length basis.
6. The original budget was amended during the year in compliance with the City Charter and applicable state law. The budget to actual expenditures in the financial statements represents the final budgeted expenditures as amended by the City.
7. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds.

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds

A. Deposits and investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated two banks for the deposit of its funds. The investment policy adopted by the Board is in accordance with Public Act 196 of 1997.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the City had \$153,253 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name:

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
Repurchase Agreement	\$2,402,723	Counterparty

Interest rate risk:

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Repurchase Agreement	\$2,402,723	2 months

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds – (continued)

A. Deposits and investments – (continued)

Credit risk:

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U. S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank investment pool	\$1,671,366	Not rated	Not rated

B. Capital assets

Capital asset activity for the year ended June 30, 2005 was as follows:

Primary Government

	<u>Balance July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,364,467	\$ -	-	\$ 1,364,467
Capital assets, being depreciated:				
Buildings	2,199,663	60,662	-	2,260,325
Land improvements	494,929	30,860	-	525,789
Machinery and equipment	1,485,099	154,943	(91,215)	1,548,827
Roads	100,463	-	-	100,463
Total, capital assets being depreciated	4,280,154	246,465	(91,215)	4,435,404
Less accumulated depreciation for:				
Buildings	(630,053)	(43,993)	-	(674,046)
Land improvements	(302,800)	(10,086)	-	(312,886)
Machinery and equipment	(844,866)	(118,124)	91,215	(871,775)
Roads	-	(2,009)	-	(2,009)
Total accumulated depreciation	(1,777,719)	(174,212)	91,215	(1,860,716)
Total capital assets, being depreciated net	2,502,435	72,253	-	2,574,688
Total capital assets, net	\$ 3,866,902	\$ 72,253	\$ -	\$ 3,939,155

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds – (continued)

B. Capital assets – (continued)

Primary Government – (continued)

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Business-type activities:				
Capital assets, being depreciated:				
Machinery and equipment	\$ 101,066	\$ -	\$ -	\$ 101,066
Water and sewer systems	7,831,308	-	-	7,831,308
Total capital assets, being depreciated	7,932,374	-	-	7,932,374
Less accumulated depreciation for:				
Machinery and equipment	(51,735)	(8,867)	-	(60,602)
Water and sewer systems	(3,054,964)	(112,274)	-	(3,167,238)
Total accumulated depreciation	(3,106,699)	(121,141)	-	(3,227,840)
Business - type activities capital assets, net	\$ 4,825,675	\$ (121,141)	\$ - 0 -	\$ 4,704,534

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Current:

Legislative	\$ 1,925
General government	64,215
Public safety	37,617
Public works	44,002
Recreation and cultural	26,453

Total depreciation expense – governmental activities \$174,212

C. Interfund receivables, payables, and transfers

The composition of interfund transfers as of June 30, 2005 is as follows:

Operating transfers:

	Local Streets	Transfer In Nonmajor Governmental	Sewer	Total
Transfer out:				
General fund	\$ -	\$ 74,359	\$ -	\$ 74,359
Major streets	25,000	-	-	25,000
Nonmajor governmental funds	-	-	19	19
Water fund	-	29,000	-	29,000
Sewer fund	-	29,000	-	29,000
Total transfers out	\$ 25,000	\$132,359	\$ 19	\$115,874

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds – (continued)

C. Interfund receivables, payables, and transfers – (continued)

Transfers from the water, sewer, and general fund were made to fund debt service requirements for the construction of City Hall. The transfer from the major streets fund to the local streets fund is intended to support local street preservation and maintenance, and is in accordance with State law.

D. Long-term debt

A summary of long-term liability transactions for the year ended June 30, 2005, and the composition of the June 30, 2005, long-term debt balance follows:

	<u>Final Payment Due</u>	<u>Interest Rate or Range</u>	<u>Original Amount of Issue</u>	<u>Balance at June 30, 2004</u>	<u>Issuances (Retire- ments) During Year</u>	<u>Balance at June 30, 2005</u>	<u>Due Within One Year</u>
Governmental Activities:							
Building Authority Bonds:							
Series 2001	5/20/21	4.25-5.65%	995,000	920,000	(25,000)	895,000	25,000
Accumulated vacation and sick pay				76,166	3,753	79,919	8,000
				996,166	(21,247)	974,919	33,000
Business-type Activities:							
1998 Genesee County Water Supply System Refunding Bonds							
	4/2008	4.45-4.50%	\$283,615	112,554	(28,974)	83,580	28,417
				<u>\$1,108,722</u>	<u>\$ (50,221)</u>	<u>\$1,058,499</u>	<u>\$ 61,417</u>

Annual debt service requirements to maturity for the above bond obligations are as follows:

<u>Year End June 30,</u>	<u>Governmental Activities</u>		<u>Business Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	25,000	46,568	28,417	3,719
2007	25,000	45,443	27,860	2,468
2008	25,000	44,318	27,303	1,229
2009	50,000	43,130	-	-
2010	50,000	40,756	-	-
2011-2015	250,000	167,400	-	-
2016-2020	375,000	94,305	-	-
2021	95,000	-	-	-
Total	<u>\$895,000</u>	<u>\$481,920</u>	<u>\$83,580</u>	<u>\$ 7,416</u>

Building Authority Bonds:

The City of Swartz Creek is party to a long-term lease agreement for rental of a building and parking structure with the City of Swartz Creek Building Authority (Building Authority). The Building Authority was created pursuant to the provisions of Public Act 31 for the purpose of financing and constructing City facilities.

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds – (continued)

D. Long-term debt – (continued)

The lease stipulates that fixed annual rentals will be paid to the Authority and such rentals are pledged exclusively for payment of principal and interest on revenue bonds issued by the Authority to finance the various projects. The lease agreement also provides that after all revenue bonds are retired, the fixed annual rentals will cease, and title to all buildings and structures shall vest in the City of Swartz Creek.

The City's full faith and credit is pledged for the payment of these rentals (subject to constitutional limitations). The lease agreement is essentially a financing vehicle for the City of Swartz Creek to purchase buildings and structures. Under provisions of generally accepted accounting principles for these types of leases, the assets and related liabilities encompassed by the lease are included in the statement of net assets of the lessee (City of Swartz Creek) as if these assets were purchased and financed by the lessee. These assets and liabilities are normally measured by the lesser of fair market value of the property at the inception of lease or present value of the minimum lease payments (discounted at the lessee's incremental borrowing rate) at the beginning of the lease term. Since the minimum lease payments are the payments required to retire the debt, the assets are shown at fair market value at the inception of the lease (cost) and the related lease liabilities are the outstanding revenue bonds related to the leased assets. The fixed assets owned by the Authority and included in the City's financial statements in the statement of net assets at June 30, 2005, have an accumulated cost of \$788,137.

The Building Authority bonds are due in annual installments of \$25,000 to \$95,000 through May 5, 2021. Interest is paid semi-annually at rates ranging from 4.25% to 5.65%. The outstanding balance payable at June 30, 2005 is \$895,000.

City indebtedness:

Act 279, Public Acts of Michigan 1909, as amended, provides that net indebtedness of cities cannot exceed 10% of the assessed real and personal property in the city. As of June 30, 2005, the City of Swartz Creek had a total debt limit of \$23,008,536. According to Act 279, the General Obligation Sewer and Drain Bonds and all Enterprise Funds are specifically exempted from the computation. Principal outstanding on applicable debt at June 30, 2005 is \$895,000. Therefore, the City could incur \$22,113,563 of additional general obligation debt as of June 30, 2005 and still be in compliance with State law.

Defeased debt:

During 1998, the City defeased its 1969 Genesee County Water Supply System No. 1 Bonds by issuing the 1998 Refunding bonds. The proceeds were placed in an irrevocable trust to provide for all future debt service payments on the old contract. Accordingly, the trust account assets and the liability for the defeased contract are not included in the general purpose financial statements. At June 30, 2005, \$83,580 of the contract is still outstanding.

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2005

IV. Detailed notes on all funds – (continued)

E. Property taxes

Property taxes are levied based on assessed values of property located in the City. Assessed values are established annually and equalized by the state at an estimated 50% of current market value. A comparison of assessed and taxable property values for the 2004 tax levy is as follows:

	<u>Assessed Value</u>	<u>Taxable Value</u>
Real property	\$208,381,590	\$173,161,992
Personal property	<u>21,703,767</u>	<u>21,703,767</u>
Total	<u>\$230,085,357</u>	<u>\$194,865,759</u>

The City is permitted by charter to levy up to \$5.00 (5 mills) per \$1,000 of state taxable value for general governmental services. For the year ended June 30, 2005, the City levied \$4.8348 for general governmental services and \$1.75 for garbage per \$1,000 of state taxable valuation. The City is permitted to levy unlimited amounts for payment of existing general long-term debt obligations. As of June 30, 2005, \$.01 (.01 mill) per \$1,000 of state taxable valuation was being levied for long-term debt retirement. A levy of .4981 mills is levied on the behalf of the Senior Center of which the City is financially accountable.

V. Other information

A. Risk management and contingent liabilities

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The City participates in a public entity risk pool that assumes the risk of loss for these claims. Settled claims for the insurance provided by the Pool have not exceeded the amount of pool coverage in any of the past three fiscal years. As a participant in the pool, the City has the responsibility to promptly pay all annual premiums, promptly report all incidents, follow all loss reduction and prevention procedures established by the Pool, provide the City's annual budget and audited financial statements, and cooperate fully with the Pool and its attorneys in the investigation, litigation, and settlement of liability claims. The City obtains fleet insurance, employee dishonesty, property, and general tort coverage through the Pool. The City carries \$5,000,000 of liability coverage with a \$1,000 per claim deductible on property, computer equipment and mechanical systems.

The City participates in the Michigan Municipal Workers' Compensation Self-Insurer's Fund administered by the Michigan Municipal League. The Fund provides coverage for workers' compensation claims subject to a maximum limit of \$500,000 per occurrence.

The City participates in the federally assisted Community Development Block Grant Program and COPS Programs. These programs are subject to monitoring by the granting agency. The granting agency has yet to make final approval of the expenditures charged to the grant. The amount, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2005

V. Other information – (continued)

B. Federal awards

It is required by the Michigan Department of Transportation (MDOT) that governmental units report total federal awards for highway research, planning and construction pertaining to their unit. However, only the federal awards applicable to force account expenditures are required to be audited for compliance under the Single Audit Act. The reason for this requirement is that the City is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended June 30, 2005, the City of Swartz Creek did not have \$500,000 of federal awards (local force revenue) applicable to force account expenditures. As a result, an audit in compliance with OMB Circular A-133 and the Single Audit Act was not required.

C. Joint venture agreement

The Swartz Creek Area Fire Board (Fire Board) has been organized as a joint venture of the City of Swartz Creek and the Township of Clayton (Township). The organizational agreement provides for a joint exercise of power and the establishment of a separate administrative entity. Members of the Fire Board are appointed by the City and Township. The participating units provide revenue to the Fire Board on the basis of fire runs. The City and Township have provided the Fire Board with the use of several vehicles and real property. Title to these vehicles remains with the contributing unit of Government.

During the year ended June 30, 2005, the City was billed \$104,561 by the Authority. At year end, the City owed \$6,520 to the Authority for fire run services.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at the Fire Board headquarters.

D. Post-retirement benefits

The City provides healthcare coverage for retired employees with twenty-five (25) years of service in the MERS retirement plan. The expenditures for the post-retirement health care benefits are funded on a pay-as-you-go basis. At June 30, 2005 the City had six retired employees receiving benefits. The cost of the benefits provided during the year ended June 30, 2005 was \$23,020.

E. Defined benefit pension plan - MERS

The City of Swartz Creek participates in the Municipal Employees Retirement System (MERS), a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. All employees hired prior to July 1, 1997 and all police officers are eligible to participate in the plan. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2005

V. Other information – (continued)

E. Defined benefit pension plan – MERS – (continued)

Funding Policy – City employees are not required to contribute to the plan. The City is required to contribute at an actuarially determined rate, which is revised annually. The City's current contribution rate is a certain percent of annual covered payroll for each category of city employee. Rates for June 30, 2005 were general employees – 0.00%, police – 2.5%, and supervisors – 4%. Employer contributions fund a specific pension benefit for the employees of the City. The contribution requirements of plan members and the City are established and may be amended by the MERS Board of Trustees.

Annual Pension Cost - For 2005, the City's annual pension cost of \$77,439 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age normal cost method. Significant actuarial assumptions as of the date of the most recently completed actuarial valuation on December 31, 2004 included (1) a rate of return on the investments of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority\merit, (4) the assumption that benefits will increase 2.5% per year. The actuarial value of the City's assets was determined using techniques that smooth the effects of short term volatility in the market value of investments over a five-year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of payroll contributions over an open period of 30 years.

**Three-Year Trend Information for
the City of Swartz Creek**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2003	\$ 25,355	100%	\$ -
June 30, 2004	40,611	100	-
June 30, 2005	77,439	100	-

Analysis of Retirement System Funding Progress

<u>Actuarial Valuation Date *</u>	<u>Actuarial Value of Assets (a)</u>	<u>Accrued Actuarial Liability (AAL) Entry Age (b)</u>	<u>Unfunded (Overfunded) AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as % of Covered Payroll (b - a)/c</u>
12/31/04	\$6,653,737	\$7,570,708	\$916,971	87.88%	\$813,191	112.7%
12/31/03	6,503,853	6,934,536	430,683	93.7	750,808	57.3
12/31/02	6,344,717	6,789,520	444,803	93.5	702,216	63.3

* Most recent valuation completed as of opinion date.

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2005

V. Other information – (continued)

F. Defined contribution pension plan

The City has adopted by ordinance, a defined contribution money purchase pension plan administered by MERS and the ICMA Retirement Corporation. The plan is for all full time supervisors and employees represented by AFSCME hired after July 1, 1997. Employees hired prior to that date that do not participate in the defined benefit plan (MERS) may also participate in the defined contribution plan. The employee must be 18 years of age to participate in the plan.

The plan requires employer contributions of 6% of supervisors' wages and 5% of AFSCME employees' annual compensation. No employee contributions are required, but voluntary contributions can be made by the participants in accordance with IRS regulations. Participants vest in the employer contribution at the rate of 20% for each year of employment, becoming fully vested after five years.

During the year ended June 30, 2005, the City contributed \$14,186 to the plan. Employee voluntary contributions were \$11,305. Payroll costs of all employees and plan participants amounted to \$1,209,164 and \$250,889, respectively. It is the policy of the City to pay the pension costs as accrued.

G. Deferred compensation plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Once a trust, custodial account or annuity contract exists, assets are owned or held by the trust, custodian or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employer creditors nor can they be used by the public employer for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries. As a result the assets are not reported by the City.

H. Construction code revenues/expenditures

The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that Act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operation of the enforcing agency. These rules allowed for monitoring these funds in a separate activity center within the General Fund if the expenditures would normally exceed the revenues. The activity related to construction code activity for the year ended June 30, 2005 is as follows:

Construction permit revenue	\$ 58,972
Less expenditures:	
Professional services	<u>(117,983)</u>
Expenditures over revenue	<u>\$ 59,011</u>

City of Swartz Creek
Notes to Basic Financial Statements
June 30, 2005

VI. Upcoming accounting changes

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employees for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pension). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009. Management is currently assessing the impact of this new accounting standard on the City's financial statement for future reporting periods.

Effective July 1, 2005, the City will adopt the provisions of Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement will require governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital assets. In addition, the statement requires all governments to account for insurance recoveries in the same manner. The City's management does not believe this accounting change will have a significant impact.

**Required Supplementary
Information**

City of Swartz Creek
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund
For the Year Ended June 30, 2005

	General Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 927,464	\$ 927,464	\$ 979,175	\$ 51,711
Licenses and permits	87,600	78,901	81,927	3,026
Intergovernmental - federal	23,549	23,030	13,958	(9,072)
Intergovernmental - state	454,370	454,370	473,317	18,947
Charges for services	121,100	121,100	171,730	50,630
Fines and fees	30,300	30,300	55,266	24,966
Interest	21,000	21,000	35,884	14,884
Other	136,950	136,950	128,195	(8,755)
Total revenues	1,802,333	1,793,115	1,939,452	146,337
Expenditures				
Legislative	35,808	36,845	27,113	9,732
General government	560,070	555,154	534,487	20,667
Public safety	1,010,196	1,021,442	1,067,636	(46,194)
Department of public works	80,800	80,569	83,449	(2,880)
Recreation and cultural	140,649	163,826	128,550	35,276
Employee benefits	25,500	18,969	18,968	1
Total expenditures	1,853,023	1,876,805	1,860,203	16,602
Excess (deficiency) of revenues over expenditures	(50,690)	(83,690)	79,249	162,939
Other financing uses				
Operating transfers out	(79,359)	(79,359)	(74,359)	5,000
Total other financing uses	(79,359)	(79,359)	(74,359)	5,000
Net change in fund balance	(130,049)	(163,049)	4,890	167,939
Fund balance - beginning of year	1,149,321	1,149,321	1,149,321	-
Fund balance - end of year	\$ 1,019,272	\$ 986,272	\$ 1,154,211	\$ 167,939

City of Swartz Creek
Schedule of Revenues, Expenditures, and Changes
in Fund Balances - Budget and Actual
Major Street Fund
For the Year Ended June 30, 2005

	Major Street			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental - state	\$ 203,000	\$ 203,000	\$ 269,080	\$ 66,080
Interest	6,700	6,700	15,890	9,190
Other	1,500	1,500	2,600	1,100
Total revenues	211,200	211,200	287,570	76,370
Expenditures				
Current:				
Public works:				
Occupational safety	-	324	319	5
Routine maintenance- streets	131,455	148,544	122,103	26,441
Routine maintenance- bridges	1,700	-	-	-
Traffic service	50,614	40,515	42,290	(1,775)
Snow and ice removal	26,777	37,845	36,413	1,432
Administration	14,626	17,794	18,166	(372)
Total expenditures	225,172	245,022	219,291	25,731
Excess of revenues over expenditures	(13,972)	(33,822)	68,279	102,101
Other financing uses				
Operating transfers out	(25,000)	(25,000)	(25,000)	-
Total other financing uses	(25,000)	(25,000)	(25,000)	-
Net change in fund balance	(38,972)	(58,822)	43,279	102,101
Fund balance - beginning of year	930,899	930,899	930,899	-
Fund balance - end of year	\$ 891,927	\$ 872,077	\$ 974,178	\$ 102,101

City of Swartz Creek
Schedule of Revenues, Expenditures, and Changes
in Fund Balances - Budget and Actual
Local Street Fund
For the Year Ended June 30, 2005

	Local Street			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental - state	\$ 70,000	\$ 70,000	\$ 77,290	\$ 7,290
Interest	1,500	1,500	2,958	1,458
Other	5,000	5,000	16,639	11,639
Total revenues	76,500	76,500	96,887	20,387
Expenditures				
Current:				
Public works:				
Occupational safety	-	78	77	1
Lighting	-	2,566	2,565	1
Routine maintenance- streets	58,845	54,616	63,274	(8,658)
Routine maintenance- bridges	5,250	817	816	1
Traffic service	19,614	9,692	2,761	6,931
Snow and ice removal	25,277	34,958	34,453	505
Administration	15,126	21,385	7,729	13,656
Total expenditures	124,112	124,112	111,675	12,437
Excess (deficiency) of revenues over expenditures	(47,612)	(47,612)	(14,788)	32,824
Other financing sources (uses):				
Operating transfers in	25,000	25,000	25,000	-
Total other financing sources	25,000	25,000	25,000	-
Net change in fund balance	(22,612)	(22,612)	10,212	32,824
Fund balance - beginning of year	152,630	152,630	152,630	-
Fund balance - end of year	\$ 130,018	\$ 130,018	\$ 162,842	\$ 32,824

City of Swartz Creek
Schedule of Revenues, Expenditures, and Changes
in Fund Balances - Budget and Actual
Garbage Fund
For the Year Ended June 30, 2005

	Garbage Collection			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 313,000	\$ 313,000	\$ 344,215	\$ 31,215
Forfeits	50	50	16	(34)
Interest	4,500	4,500	12,527	8,027
Total revenues	317,550	317,550	356,758	39,208
Expenditures				
Current:				
Public works:				
Sanitation collection	204,488	215,016	215,012	4
Wood chipping	112,751	102,223	60,431	41,792
Total expenditures	317,239	317,239	275,443	41,796
Net change in fund balance	311	311	81,315	81,004
Fund balance - beginning of year	448,137	448,137	448,137	-
Fund balance - end of year	\$ 448,448	\$ 448,448	\$ 529,452	\$ 81,004

Other Supplemental Information

**City of Swartz Creek, Michigan
Non-Major Governmental Funds
Summary Descriptions
June 30, 2005**

Special Revenue Funds

Drug Enforcement Fund accounts for the proceeds from the sale of confiscated property seized in drug related crimes.

Special Assessment Fund accounts for sidewalk improvements special assessments.

Debt Service Funds

City Hall Fund accounts for resources accumulated for the payment of the Swartz Creek Building Authority bonds.

Sewer Interceptor Fund accounts for resources accumulated for the payment of general obligation debt.

Capital Project Funds

Capital Project Fund accounts for resources restricted for capital improvement.

Fire Capital Project Fund accounts for resources restricted for the purchase of fire department capital equipment.

City of Swartz Creek
Combining Balance Sheet
Non-major Governmental Funds
June 30, 2005

	<u>Special Revenue</u>		<u>Debt Service</u>	
	<u>Drug Enforcement</u>	<u>Special Assessments</u>	<u>City Hall</u>	<u>Sewer Interceptor</u>
Assets				
Cash and cash equivalents	\$ 6,158	\$ 12,786	\$ 12,510	\$ -
Accounts receivable	5,990	9,854	-	-
Total assets	<u>\$ 12,148</u>	<u>\$ 22,640</u>	<u>\$ 12,510</u>	<u>\$ - 0 -</u>
Liabilities				
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balances				
Unreserved, undesignated	<u>12,148</u>	<u>22,640</u>	<u>12,510</u>	<u>-</u>
Total fund balances	<u>12,148</u>	<u>22,640</u>	<u>12,510</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 12,148</u>	<u>\$ 22,640</u>	<u>\$ 12,510</u>	<u>\$ - 0 -</u>

<u>Capital Project</u>		<u>Total</u>	
<u>Capital</u>	<u>Fire</u>	<u>Non-major</u>	
<u>Projects</u>	<u>Capital</u>	<u>Governmental</u>	
	<u>Project</u>	<u>Funds</u>	
\$ 30,134	\$ 88,212	\$ 149,800	
-	-	15,844	
\$ 30,134	\$ 88,212	\$ 165,644	

\$ 27,062	\$ -	\$ 27,062	
-----------	------	-----------	--

3,072	88,212	138,582	
3,072	88,212	138,582	
\$ 30,134	\$ 88,212	\$ 165,644	

City of Swartz Creek
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-major Governmental Funds
For the Year Ended June 30, 2005

	<u>Special Revenues</u>		<u>Debt Service</u>	
	<u>Drug Enforcement</u>	<u>Special Assessments</u>	<u>City Hall</u>	<u>Sewer Interceptor</u>
Revenues				
Interest	\$ -	\$ -	\$ 725	\$ -
Other	39,099	5,453	-	-
Total revenues	39,099	5,453	725	-
Expenditures				
Public safety	70,487	5,274	-	-
Capital outlay:				
City hall	-	-	-	-
Other	-	-	-	-
Debt service:				
Principal	-	-	25,000	-
Interest	-	-	47,967	-
Total expenditures	70,487	5,274	72,967	-
Excess (deficiency) of revenues over expenditures	(31,388)	179	(72,242)	-
Other financing sources (uses)				
Operating transfers in	37,859	-	74,500	-
Operating transfers out	-	-	-	(19)
Net change in fund balances	6,471	179	2,258	(19)
Fund balance - beginning of year	5,677	22,461	10,252	19
Fund balance - end of year	\$ 12,148	\$ 22,640	\$ 12,510	\$ - 0 -

<u>Capital Projects</u>		<u>Total</u>	
<u>Capital</u>	<u>Fire</u>	<u>Non-major</u>	
<u>Projects</u>	<u>Capital</u>	<u>Governmental</u>	
	<u>Project</u>	<u>Funds</u>	
\$ 1,799	\$ 1,503	\$ 4,027	
-	-	44,552	
1,799	1,503	48,579	
-	-	75,761	
3,373	-	3,373	
100,935	14,134	115,069	
-	-	25,000	
-	-	47,967	
104,308	14,134	267,170	
(102,509)	(12,631)	(218,591)	
-	20,000	132,359	
-	-	(19)	
(102,509)	7,369	(86,251)	
105,581	80,843	224,833	
\$ 3,072	\$ 88,212	\$ 138,582	

**City of Swartz Creek
Combining Balance Sheet
Agency Funds
June 30, 2005**

	<u>Trust & Agency</u>	<u>Current Tax Collection</u>	<u>Winter Tax</u>
Assets			
Cash and cash equivalents	\$ 36,504	\$ 1,190	\$ 1,293
Delinquent taxes receivable	-	-	-
Total assets	<u>\$ 36,504</u>	<u>\$ 1,190</u>	<u>\$ 1,293</u>
Liabilities			
Due to other governmental units	\$ -	\$ 1,190	\$ 1,293
Deposits payable	36,504	-	-
Total liabilities	<u>\$ 36,504</u>	<u>\$ 1,190</u>	<u>\$ 1,293</u>

<u>Tax in Lieu of Mari-Dan</u>	<u>Delinquent Personal Property Tax</u>	<u>Totals</u>
\$ 22,769	\$ 336	\$ 62,092
-	277,741	277,741
<hr/>		
\$ 22,769	\$ 278,077	\$ 339,833
<hr/>		
\$ 22,769	\$ 278,077	\$ 303,329
-	-	36,504
<hr/>		
\$ 22,769	\$ 278,077	\$ 339,833
<hr/>		

September 1, 2005

City Council
City of Swartz Creek
Swartz Creek, Michigan

We have recently completed our audit of the financial statements of the City of Swartz Creek for the year ended June 30, 2005. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the City Council and others within the organization.

Auditor's Responsibility Under Generally Accepted Auditing Standards

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The following paragraphs explain our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all

A member of



A worldwide association of independent accounting firms

transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

Significant Accounting Policies

Auditing standards call for us to inform you regarding the initial selection of, and change in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There were no significant unusual transactions or controversial or significant emerging areas for which new accounting policies were needed.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Auditing standards call for us to report to you on accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments. Further, we are expected to report to you about the process used by management in formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates. The assumptions used in the actuarial valuation of the defined benefit pension plan, the useful lives of and depreciation expenses for capital assets, and the estimated historical cost for capital assets used in government activities are sensitive accounting estimates that affect the financial statements.

Audit Adjustments

Auditing standards call for us to report to you significant audit adjustments that, in our judgment, may not have been detected except through the auditing procedures we performed. There were no significant audit adjustments posted as a result of the audit.

Auditing standards also require us to inform the City Council about uncorrected possible financial statement adjustments identified by us during the current engagement and pertaining to the latest period presented, which were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of the unrecorded possible financial statement adjustments is included as an attachment to this letter.

Other Information in Documents Containing Audited Financial Statements

When our audit report and the audited financial statements are included in a client document, we have a responsibility to read that document and consider whether anything therein is inconsistent with the information in the audited financial statements. It is our understanding that the audited financial statements are currently not expected to be included in any other document.

Disagreements with Management

There were no disagreements with management over the application of accounting principles or the basis for management's judgments about accounting estimates. Additionally, there were no disagreements regarding the scope of the audit, disclosures to be included in the financial statements or the wording of the auditor's report.

Consultation with Other Accountants

To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Internal Controls

In planning and performing our audit of the financial statements of City of Swartz Creek for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect City of Swartz Creek's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we have determined is not a material weakness:

Scheduling of Cash Receipting Duties – Water and Sewer Billings

The Water and Sewer Billings Clerk is responsible for sewer and water billings and maintenance of the accounts receivable balances for each City water and sewer customer. As part of her duties the Clerk has the authority to adjust individual customer receivable records without supervisory review and approval of the adjustments or credits. The same Clerk also works the front desk when other staff are unavailable or when customer volume is high. The clerk is therefore accepting cash and check payments from citizens

that could include payments on water and sewer bills. This additional duty provides the Clerk with access to both the cash payments received and the records pertaining to that cash receipt (the accounts receivable subsidiary records).

This mixture of duties would provide the Clerk with the ability to misappropriate cash receipts on water and sewer bills and then manually adjust the receivable records so that the receivable is properly credited as if a cash payment was received. Neither the City nor the customer would know that the cash was misappropriated as all financial records would indicate that proper payment was made.

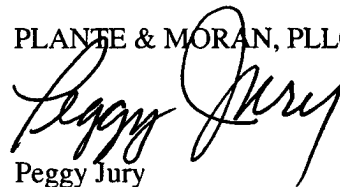
This comment was also issued during the 2004 audit. Ideally, we would recommend that the Water and Sewer Billings Clerk not be assigned duties that could result in her accepting payments for water and sewer bills. Other City staff should be utilized at all times to accept citizen's payments. We understand that City management is aware of the risk of the water and sewer clerk collecting customer payments and is only scheduling the water and sewer clerk when other staff is not available.

We wish to make it absolutely clear that we are not suggesting that the Water and Sewer Billings Clerk is making errors of any nature. During the course of our audit, we found the financial records to be both complete and accurate. What we are saying is that due to the lack of segregation of duties, there is an inherent limitation in the City's system of internal accounting control, and we are required to disclose this to you.

This information is intended solely for the use of the City Council and management of City of Swartz Creek and should not be used for any other purpose. We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

PLANTE & MORAN, PLLC



Peggy Jury